



Bill Analysis

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Sponsor:

Bill Number: SB 1349

Related Bills: See Legislative
History

Amended: April 6, 2026, and
April 14, 2026

SUBJECT

Legislative Analyst's Office (LAO) Report and Recommendation for Tax Expenditures

SUMMARY

This bill would, under the Revenue and Taxation Code (RTC), require the LAO to assess major tax expenditures meeting specified criteria and to make recommendations to the Legislature regarding those expenditures. This bill would be effective and operative January 1, 2027.

This analysis only addresses the provisions of the bill that would impact the Franchise Tax Board's (FTB) programs or operations.

RECOMMENDATION

No position—The three-member Franchise Tax Board has not formally voted or taken a position on this bill.

SUMMARY OF AMENDMENTS

The April 6, 2026, amendments assigned the responsibility to make recommendations to the Legislature to the LAO, made technical changes, added a coauthor, and resolved the technical consideration discussed in the FTB's analysis of the bill as introduced February 20, 2026.

The April 14, 2026, amendments modified the intent of LAO's assessment.

REASON FOR THE BILL

The reason for the bill is to create a mechanism for the review of some of California's largest tax expenditures.

ANALYSIS

This bill would require the LAO to provide by January 1, 2029, a report and recommendations on major tax expenditures, as defined, to the Legislature, the Senate Committee on Budget and Fiscal Review, the Senate Committee on Revenue and Taxation, the Assembly Committee on Budget, and the Assembly Committee on Revenue and Taxation, and to publish the report on its internet website.

Upon receipt of the report, the Senate Committee on Revenue and Taxation and the Assembly Committee on Revenue and Taxation would be required to hold a joint public hearing on the report by August 15 of the second year of the legislative session.

The LAO would be required to identify any savings that the Legislature can realize by reducing or limiting the major tax expenditures and consider the following criteria when finalizing the report:

- The impact to the General Fund.
- Assessment of whether modifying or repealing each major tax expenditure would provide the most positive impacts on the General Fund with the least negative economic, social, or environmental impacts.

Any other state agency would be required to assist LAO, to the maximum degree practicable.

Comprehensive Assessment

The scope of each comprehensive assessment, would include to the extent possible, but not limited to all of the following:

- A description of the legislative intent of each tax expenditure, as specified.
- A brief description of the beneficiaries of each tax expenditure, as provided by state law.
- The number of returns filed, or business entities affected, as applicable, for the most recent tax year for which full year data is available.
- A listing of any comparable federal tax benefit, if any.
- A description of any recent prior tax expenditure evaluation or compilation of information completed by any state agency.
- The economic, social, or any other benefits of each tax expenditure to the State of California.
- The total net loss of General Fund moneys resulting from each tax expenditure, along with its effect on funding for other General Fund programs.
- The total decrease in General Fund tax revenue resulting from each tax expenditure, as required for Proposition 98 calculations under Section 8(b) of Article XVI of the California Constitution, and its effect on funding for educational programs.
- Potential environmental impacts, if any, of each tax expenditure.
- A long-term analysis comparing the actual versus intended beneficiaries of each tax expenditure, along with its impact on the business climate and market conditions.

- Jobs in California created by each tax expenditure including the following information:
 - Whether the jobs created were short- or long-term positions, along with the average salary and provided benefits.
 - The number of jobs lost or reduced in areas impacted by each tax expenditure, or whether jobs were shifted to other sectors.
 - The data above would need to include aggregated data on gender demographics, age, race and ethnicity on the jobs created by the tax expenditure.

Recommendations

The LAO would also be required to include at a minimum the following in the recommendation to the Legislature:

- How cost-effective the major tax expenditure is compared to alternative ways of achieving the same purpose, intent or goal.
- An analysis of the major tax expenditure's effect on the General Fund.
- An analysis of the effect on employment, wages, and the state's economy.
- Whether opportunities exist to improve the effectiveness of the major tax expenditure in meeting its purpose or if no improvement opportunities exist, whether the Legislature should repeal the expenditure.

The following is defined:

- "Major tax expenditures" would mean, a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state that has resulted in forgone revenue equal to or greater than one billion dollars (\$1,000,000,000) in total over the previous 10 fiscal years, as well as not containing a repeal or inoperative date or a requirement to report on the effectiveness of the tax expenditure.
- The definition of major tax expenditures would specifically exclude tax expenditures allowed only under the Personal Income Tax Law (PITL), exclusions for public safety officer death benefits, exclusions for annuities, exclusions for life insurance receipts or payments made by reason of death of the insured, exemptions from taxation of exempt organizations, deductions for charitable donations allowed under the PITL or Corporate Tax Law, and tax expenditures that have a requirement to report metrics of efficacy.

The requirement for submitting the report would be inoperative on January 1, 2033.

The provisions of this bill would become inoperative on the date that is six months after the required joint public hearing by the Senate Committee on Revenue and Taxation and the Assembly Committee on Revenue and Taxation, and would be repealed on the following January 1.

Effective/Operative Date

This bill would be effective and operative January 1, 2027.

Federal/State Law

Current state law provides that information collected from income tax returns is considered confidential and, unless specifically available for other uses, must be used only to administer the income tax laws. The FTB may disclose taxpayer information only in limited circumstances and only to specific agencies, as authorized by law. Improper disclosure of federal tax information is punishable as a felony, and improper disclosure of state tax information is punishable as a misdemeanor.

Legislation that would create a new tax expenditure, which includes a credit, deduction, exemption, or any other tax benefit as provided for by the state, is required to include specific goals, purposes, objectives, detailed performance indicators and data collection requirement measures to allow the Legislature to evaluate the effectiveness of the tax benefit.

Implementation Considerations

None noted.

Technical Considerations

None noted.

Policy Considerations

None noted.

LEGISLATIVE HISTORY

SB 468 (Jackson, et al., 2019/2020), under the RTC, would have established the California Tax Expenditure Review Board (CTERB) as an independent advisory body to comprehensively assess major tax expenditures meeting specified criteria and to make recommendations to the Legislature regarding those expenditures. SB 468 was vetoed by the governor whose veto message stated:

I support greater transparency with respect to tax credits, exemptions, and other expenditures and believe these items should be scrutinized periodically to justify their overall cost to the state's revenue base. However, creating a new board to accomplish that goal is unnecessary. The Department of Finance is currently required to publish tax expenditure reports and existing law requires new income tax expenditures to specify goals, performance indicators, and data collection requirements.

SB 956 (Jackson, 2019/2020), under the RTC, would have established the CTERB as an independent advisory body to comprehensively assess major tax expenditures meeting specified criteria and to make recommendations to the Legislature regarding those expenditures. SB 956 was held in the Assembly without further action.

SB 1335 (Leno, Chapter 845, Statutes of 2014) required new tax credit legislation to include specific goals, purposes, objectives, and performance measures.

PROGRAM BACKGROUND

None noted.

OTHER STATES' INFORMATION

None noted.

FISCAL IMPACT

FTB's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be determined.

ECONOMIC IMPACT*Revenue Estimate*

This bill as amended on April 6, 2026, and April 14, 2026, would not impact the computation of state income or franchise tax.

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

LEGAL IMPACT

None noted.

EQUITY IMPACT

None noted.

APPOINTMENTS

None noted.

SUPPORT/OPPOSITION

Senate Revenue and Taxation Committee Report, dated April 6, 2026

Support

California Teachers Association (Co-Sponsor)
American Federation of State, County and Municipal Employees, AFL-CIO
California Federation of Labor Unions, AFL-CIO
California State Association of Counties
California State Council of Service Employees International Union
League of California Cities
One Individual

Opposition

California Taxpayers Association

ARGUMENTS

Senate Revenue and Taxation Committee Report, dated April 6, 2026

Proponents

None on file.

Opponents

None on file.

LEGISLATIVE CONTACT

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